

## Monthly Report to Unitholders of the Optimal Japan Trust October 11<sup>th</sup>, 2005

Date	NAV	Monthly % Return*
30 September 2005	A\$ 15.26	+6.71%

\* After all fees

\* NAV is ex-distribution of **A\$ 1.4218 (for Yr to 6/05)** A\$0.4713 (for Yr to 6/04) A\$ 0.8983 (for Yr to 6/02) A\$0.8989 (for Yr to 6/01) and A\$ 1.4158 (for Yr to 6/00)

\* Returns are based on the redemption price of the initial series

### Approximate Contribution by Longs & Shorts

OJT A\$ Return	Longs – Contribution	Shorts - Contribution
6.71 %	+ 9.17 %	- 2.22 %

*Important: The Optimal Japan Fund and Optimal Japan Trust are not accepting new investments. The administrator (HSBC Institutional Trust Services) will only accept applications for investment from those with agreements with the manager.*

What a dreadful month in which to have been long the Japanese airlines. Fortunately we weren't, but in a month when the Topix index (in Yen) rose 11.1% and 32 of the Topix's 33 component sectors rose, you would have felt rather special had you been an investor in either All Nippon Airways or JAL. Both fell almost 3%, whilst steel rose 27%, banks 19% and real estate companies 17%. Having many times wondered why the Japanese airline stocks traded on the dizzy multiples that they do, it is no insult to common sense that they fell – at last. More perplexing was the quite pronounced weakness of the Japanese Yen against the US Dollar. Whilst foreigners poured money into Japanese equities – presumably out of foreign currencies – the Yen fell 2.6% and the weakness shows for all to see in the YTD return from Japanese equities. In Yen, the Topix index (as at 7 October close) is +19.4% whilst the USD return is only 7.6%. Observers of Japanese bull (and bear) markets would know that strong equity markets invariably go hand in hand with a stronger Yen. Maybe we are still in a bear market after all but it does not feel like it.

As we had hoped and expected, Mr Koizumi was returned to government in the September 11<sup>th</sup> poll. Much has been written on the subject and we can add little. Policy will not likely change much. And in Japan, at least for now, that is a definite positive. The large victory is affirmation of the shift in focus and power from rural Japan to urban Japan and that is both natural and desirable. The eventual privatisation of the Japan Post Office is also a very symbolic shift away from the administration of government by bureaucrat and rural strong men. Banks should benefit, but it won't be an overnight windfall.

We ran net exposure in the Fund in excess of 60% for all of the month until the 27<sup>th</sup> when we sold futures to cut exposure back to about 25%. This was based more on instinct than any objective analysis and once we have recovered our breath, we expect to cover this short position and reinstate net exposure above 50%.

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# Optimal FUND MANAGEMENT

Only two issues that are Japan specific continue to be of concern. One is the low dividend pay-out ratio and the second is the lack of independent directors on Japanese boards. Both issues are broadly in the sphere of “governance” and thus will not be resolved overnight. As we have seen with corporate profits however, once the bit is between the teeth, the Japanese horse is a determined and impressive runner.

The Optimal Fund Management web-site has been resuscitated and is going live as we write. Please take a look at [www.optimalasia.com](http://www.optimalasia.com) and if needed, notify us if you want a password for full access. Our office phone numbers have also changed, and these can be found on the site.

Positive contributors (long) Mizuho Financial Group; Toyota Motor; Mitsui Fudosan; Nippon Steel  
(short) Nitto Denko; Funai Electric; Saizeriya Co

Negative contributors (long) World; Rasa Industries; Yusen Air and Sea  
(Short) Shimizu Co; Suruga Bank; Goldcrest Co

## Major Positions

Toyota Motor; Mizuho Financial; Mitsui Fudosan; Tokyo Tatemono

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# Optimal FUND MANAGEMENT

Return Snapshot	
Period	%(AUD)
Year to Date Return	20.97
Return since inception Inception 20 Dec, 1999	103.66
Fund size at 30 Sept 05	AUD 44 mil

Portfolio Composition at Month End			
% of NAV	July 05	Aug 05	Sept 05
Long Stock Position	83.21	83.44	80.61
Short Stock Position	(29.91)	(23.43)	(27.25)
Index Futures			(30.28)
Equity Derivatives	1.10	1.11	0.99
Net Exposure	54.40	61.12	24.07

## Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in December 1999. The returns are of the Trust's Initial Series

Optimal Japan Trust Net Monthly Returns in AUD													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
1999												0.58*	0.58
2000	-0.32	12.76	8.99	-1.53	2.45	11.82	-9.05	4.02	-0.37	0.90	-0.18	-3.86	26.63
2001	-2.34	3.13	1.36	8.46	-2.14	3.96	-2.88	1.49	-3.58	1.77	-3.89	-5.46	-0.25
2002	1.10	1.47	2.07	-0.26	7.2	-2.9	-1.43	-1.47	2.04	-4.47	-3.65	-0.42	-0.59
2003	1.80	1.98	0.41	-0.20	2.55	3.97	1.91	5.90	3.81	3.58	-1.73	3.02	30.43
2004	-0.33	1.22	7.01	0.23	-1.20	3.67	-2.26	4.03	0.82	-1.55	1.65	1.92	15.95
2005	2.83	2.05	0.0	-0.13	1.04	1.37	2.38	4.15	6.71				20.97

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